

Rail Discussion Meeting – Dave Plazak, Facilitator
Best Western Starlite Village Motel, Ft. Dodge, IA
January 20, 2004, 1:00 pm – 4:00 pm

(Note: Participant comments indented.)

Participants were:

Tom Miller, Farmers Coop Elevator
Bill Beukema, West Central Coop
Marty McVey, Agri Industries
Terry Voss, Ag Processing Inc.
Mary Kaye Madden, Roberts & Dybdahl Inc.
John Coffelt, Hancock Elevator Inc.
Tom Kane, Des Moines MPO
Steve Hoesel, MIDAS Council of Governments
Daniel Beenken, Iowa Soybean Association
Lynn Anderson, Dakota Minnesota & Eastern Railroad
Dave Johnson, Iowa Traction Railroad
Kevin Wiskus, Rubbermaid Home Products
Ken Novander, Canadian National/Illinois Central
Steve Thomas, Canadian National/Illinois Central
Ron Hankins, CBEC Railroad/MidAmerican Energy
Jeff Nelson, Farmers Elevator Co., Bondurant

DOT Staff:

Stu Anderson
Peggy Baer
John Hey
Craig O'Riley
Larry Mesenbrink
Diane McCauley
Mary Kay Reimers

Stu Anderson – These meetings are a culmination of an effort that's been going on for over a year. A year ago DOT staff and our Commission had discussions and decided we need to take a hard look at the rail system in Iowa, specifically what the DOT's role should be in that rail transportation system. That began an on-going effort to look at the rail system. Early on we did quite a bit of work looking at trends impacting the rail system, trends on the farm size, farmer-owned semi-trucks, elevator consolidation, and on the transportation side changes in the movement of goods, shuttle trains, unit trains, etc. We undertook quite a lengthy analysis of that and towards that effort we held two roundtables. Since those roundtables, we have developed a draft stratification system and

some draft transportation policies directly related to the rail system. This is the third of three roundtables we are holding – one in Cedar Rapids, one in Des Moines, and one here in Ft. Dodge. These meetings focus on stratification and future directions we should take as a department and state. This input will be included in the development of a draft rail plan that also will be part of our state long-range transportation plan.

To help facilitate this input, we have Dave Plazak from Iowa State University, at the Center for Transportation Research and Education (CTRE). Dave is the associate director at CTRE for Policy and adjunct assistant professor at Iowa State University in Community Regional Planning.

Dave Plazak – This is a brainstorming session. I'm here to ask questions and listen to your responses. Last year the focus groups were about the general direction. This year we're going to be more specific. We want to know programs, financing, and opinions on detailed directions. This is action-oriented today. What do you think the Iowa DOT should be about in terms of railroad transportation? Think action.

There are five areas for discussion: 1) Rail System Preservation, where are we at, where should we go in terms preserving the system? 2) Rail System Upgrade – What should be done, what should the state's role be in terms of upgrading the system?; 3) Rail System Stratification – The idea is to have a strategy about what we do in Iowa, what's most important, what's not so important, are there some things that can get by all by themselves?; 4) Rail Passenger – Is there a role for the state? Is this an important issue? Rail programs in Iowa have always been oriented toward freight, but should there be passenger programs? and 5) Farmers & Citizens' Wants – What do the farmers and citizens of Iowa want in terms of rail programs?

Are we at a point in Iowa where we have the system at the level it should be? The rail system has shrunk. At the peak in 1915 there were 10,000 miles of rail and now it's around 4,000 miles. Are we at a point now that we should aggressively preserve what we have or should we look at it on a case-by-case basis? Should we provide, as a state, funding for preservation?

- I don't think you can look at this map and say you have to preserve what's there. I'm guessing there are some lines on the map that aren't going to be there in ten years and probably shouldn't be there. You have to use rationalization. You have to look at each segment of the line. If the state is going to contribute money, the shipper will have to contribute money.
- To help clarify for us what direction we need to go, we need to know what railroads intend to do. At a conference last week, Class 1 railroads were talking about their core business, they want to be a hook and haul railroad. They don't want to serve the short branchlines. If they want to be long-haul shipper type railroads, we're going to have to look at preserving shortlines because we will have to locate small manufacturing and other companies on shortlines that cannot do unit train or multiple-car type

businesses. In some areas, even though it looks like a branchline without a lot of viability, it may be a perfect area if we can get a shortline railroad that's interested to locate some small manufacturers.

- More and more manufacturers in the country as a whole are moving off-shore for competitive reasons, so the loss of a shortline could potentially take a manufacturer out. I'm not sure it's going to attract a manufacturer, but with the loss of a line, you have to weigh the economic loss and impact in that area. It should be case-by-case. Quite possibly fifteen years ago our plant would have been lost had somebody not stepped in and took over the railroad. Preservation isn't just about the rail line; it's about the economy of the region and businesses that are on the line.
- We are in a unique situation in my area. We're a couple of miles from a second year ethanol plant. That plant bases its bid off of the two closest 100-car shippers, but the plant is taking enough of the grain out of the area that maybe one of them won't be able to provide as much grain as the railroad wants. So it's going to feed on each other. If we lose that one competing bid, it could affect our grain price considerably in that area.
- When you look at ethanol plants in Iowa, we are just getting started in the manufacturing and production side of ethanol. Rail is incredibly important to ethanol, not necessary on the inbound side because most of the grain is originated locally. But on the outbound side its access to markets just can't be reached by truck. We have to keep in mind what makes the most sense in Iowa, what areas for an ethanol plant to go in and do you simply keep a line viable just in case someone wants to use it? I don't think you can support lines that really have no place. If we're going to spend money, we should spend money on lines that are going to be used and are going to be viable long term, instead of hoping that somebody builds, whether it is light industry or whatever, on the line. The Class 1s are going long term to be hook and haul. There will probably be fewer trains than are operating today and we'll be feeding more mainline, whether those lines get abandoned or whether it's going to be a shortline that services those.
- A lot of the ethanol plants are going to be built where there's grain because with \$6 natural gas, you're not going to take distillers, dry it, and ship it, and make money on it. A 50 million gallon ethanol plant will ship four-five cars of ethanol a day. If you ship 100 percent of your production by rail that's going to hurt some rail lines. A lot of corn that was moving on that railroad before will become Dried Distillers Grain (DDG) that will probably be trucked out as wet cake. We have an ethanol plant in Hastings, Nebraska where we don't ship five percent by rail. We ship the ethanol but we don't ship the wet cake because these plants are being built where there are cattle and hogs. It's a concern because I don't think we

can say that 100 percent of production coming out of ethanol plants is going to be shipped out by rail.

Dave – You can preserve active rail lines, but you can also just preserve the right of way. What do think about that concept? It's been called rail banking.

- If you abandon a track, why would you pull the track, why wouldn't you just leave it?
- Salvage value.
- Are you banking on it to be used at a later date? Once you take rail up, it's dead because of the expense to put it back. It would be a rare case it would be put back.
- We have limited dollars we're dealing with, and I would rather see it put into viable or marginal lines that need some assistance to keep them going, opposed to sticking it in the ground somewhere where something is going to sit for many years and may never be used again.
- Around some of the bigger cities occasionally it makes some sense for light rail transit, etc. where you want to preserve a corridor for commuter trains, but once you pull the tracks up for a freight railroad it's pretty rare they will be put back. People are going to find other places to go.
- Are there any numbers showing: 1) tons of freight moved by rail versus on roadways and the cost of maintaining infrastructure on either one and 2) if you close an elevator shipping eight million bushels of grain, what does that do to the road system?

Dave – There are some studies on that. It depends a lot on the nature of the road system, how well built the pavements and bridges are, etc. If it's not built to carry heavy freight traffic, then the cost can be pretty astronomical.

- Kansas State has done a pretty extensive study on this looking at the cost, the damage the trucks have done to roads. There's also a study being worked on by the Shortline Railroad Association coming out soon.
- One thing that is an issue is 286,000-pound capable track on regional railroads and shortlines. You're going to have to get to there if you're going to be competitive.
- In the Green Belt, I would agree the ethanol plants are probably going to limit the amount of grain shipped out of the state. I think this is excellent because we're not going to create wealth in this area until we start doing value added, which is what we're talking about. There are smaller plants

scattered around the area like the one in Kossuth County and the one in Schaller. But the big value-added centers like Eddyville and Blair are going towards the more populated areas and they are going to be where those main railroads are. That's going to be the congregating point where all the trucks are going to bring it in and put the heavy volume stuff on the rail and the rest goes out by truck. I don't see that changing. If there's a priority you have to look at those truck lines, the main routes. If there's an elevator out there that still is going to ship out of state, they may have the car facility to do it. I see the way we're going in Iowa more and more of that grain is going to stay in Iowa and be processed here which is going to severely limit the need and viability of those small branchlines. It's just a natural progression.

Also the Department of Economic Development is very outspoken, in that they are looking at regional centers for economic development activities. That goes back to packaging what I'm saying. You're going to decentralize and put more into a central bulkification. Those rural sites are going to diminish and it's going to be more of those concentrated regional centers. I think that's the way they're going, so I think DOT should probably coordinate along with that.

- You see the Class 1s more and more doing that kind of thing. The BNSF is building a big facility in Joliet. They have one in Alliance, Texas and they are going to have five huge mega facilities, where they are going to transload, reload and bulk car, etc. You are going to see more and more of that where they do all kinds of commodities in that facility. You even have third party operators come in and operate different segments of that particular facility. We see states around us trying to locate those facilities also, maybe on a smaller scale. We're going to see it more centralized whether that is in Iowa or on our borders.
- As far as preservation, you analyze what value that piece of track has. I agree the shipper should participate and have a commitment. As an example, we have 24 miles of line that goes to Ida Grove. The CN Railroad, the DOT and we all made a commitment of several million dollars and today that line is up and running and the farmers in the community have benefited. If the money had not been there, that line would be sooner or later gone. I think the state of Iowa needs to focus on those types of areas to preserve and spend the money wisely because there are areas that are more valuable than others. Everybody has to participate.
- We have a facility in Sun Prairie, Wisconsin and it was the very same type of thing that happened there. The CP Rail owned the line and the state of Wisconsin bought the line from Madison to Watertown. We had a facility located on that line. We were going to close that facility and we were looking for another location. The Wisconsin Southern Railroad

subsequently leased that line from the state of Wisconsin, is currently operating it, and doing a wonderful job. Seeing what kind of service we could get from them, we decided to expand that facility and stay where we were. That's the type of influence or effect of what somebody does in a state in cooperation with the railroad whether it be shortline or Class I and a customer deciding to make a commitment to that location.

Dave – That's a model, state purchase and lease back, that hasn't been used in Iowa, but should it be? Is that an option you'd like to see?

- It's hard to argue with a success story like that.
- The hard part is getting somebody to maintain the track because the one leasing it doesn't care much about putting in new ties and rail. On the other hand, the one that owns it really doesn't want to throw money into because he has it leased.
- Is the situation with Wisconsin an isolated one?
- I think the state of Wisconsin has many lines that they operate in little segments.
- I don't know that the state should own a railroad, nor do I want the state to build a soybean processing plant.
- If the line has promise, then the shippers, the state, and the railroad make it work. It either works or it doesn't work. I don't think states should own railroads.
- If it's a viable entity somebody's going to own it, somebody's going to operate it and if it isn't, maybe it shouldn't be operated.
- There is the question of who determines whether a line is viable. At one time the Class I's basically were the ones making the determination on abandonments and the citizens or interested onlookers were thinking they must know what they're doing. Then the Staggers Act came along and currently there are at least 400 shortlines, most created from a line that a Class I or even a Class II said was not viable.

Also when I look at the map, I count county seats where there's no chance of a railroad getting there again. I certainly would not like to be on their economic development staff taking calls from anybody of any size that required rail service. They're done. It's too expensive to get it back in there.

Successful shortlines are created in the hope of the shippers to not lose their rail service and they want it continued at the same economic level. If you look at some of these shortlines that are successful, there's a lot of industry that they have generated since they took over and there's also a lot of shortlines the same way. How do you gauge that? We could produce examples of a piece of rail that the average person would have said isn't worth a dime to put anything in, yet "X" number of years later there's a couple of big plants on it and it's growing like crazy and they are maintaining the track. These are some things I haven't heard mentioned that are pretty critical because when one person stands up and says this segment needs to go and this one doesn't, my experience in the last 50 years I'm not sure they know what they are talking about. There's plenty of evidence to back that up. I'm not offering a solution, I'm pointing out some of the pitfalls.

- Railroad pricing will dictate what lines stay. If you're not competitive, I don't care if you have 136 pound welded rail, it's not going to stay. In the last ten years we've seen some pretty decent 75-car grain loaders be abandoned. There are other examples around where the railroad has elected not to price some places competitively. They have to be competitively priced or they are not going to stay.
- We have seen where a Class I couldn't competitively price a branchline and yet a shortline has come in and very effectively competitively priced it for us. Is it a good idea for the state to do something in conjunction with somebody to enable operation a shortline rather than letting it be pulled out.
- In the central Iowa area, there are several red lines and we know on the line out of Dallas County to Perry, there has been opposition to abandon that by the development group from Dallas County. In downtown Des Moines some of the rail users are being asked to relocate because the city of Des Moines no longer wants spur tracks in downtown Des Moines, they want to redevelop it. Companies are moving out there and what the Dallas County economic development people see is the potential to attract those companies that need rail service. They do not want to see it abandoned. We struggle with commuter rail in urban areas. We've looked at that using existing rail. We have issues with railroad crossings, and the number of those crossings in the urban area makes it very expensive to do that.
- The Slater line is up for abandonment. We have a transit roundtable where rail is represented at the table along with intercity bus and others, but passenger rail isn't interested in the Slater rail, it's interested in the city of Waukee on the west and the city of Ankeny on the north, both on red lines on the map. We're interested in preserving those corridors with

options for future where you could use rail, passenger rail, and light rail, commuter rail. I think the move in the metropolitan area is to not let anymore of this get away and leave us some options for what we can do. Primarily it's for freight not passenger. I'm concerned about preserving the Iowa Interstate in downtown Des Moines because they are building condominiums right up against that rail corridor, and I think we will have a real fight on our hands. We got rid of the spur track in downtown Des Moines so what we have is the mainline and if we lose that it's going to be really difficult. That track belongs to more than just downtown Des Moines; it belongs to a lot of people.

Dave – Upgrades. Someone mentioned the impact of larger equipment on track structures. In the past Iowa has had a pretty aggressive upgrading program, a loan program, and a grant program. There really isn't anything right now. Is that a direction the state should go back to? Is that a gap that exists right now?

Peggy – When asked if we still had programs, she replied that the programs are still on the books but we haven't received a General Fund appropriation.

- If you're not going to be able to load 286,000 pound gross at least in the grain industry you're going to be at a huge competitive disadvantage.
- It's in merchandize too. The big boxcars are 286. The center beam flatcars are 286. It's in other types of businesses too.

Dave – We have a couple of shortlines here, what are your thoughts?

- When you get a telephone call and they want to know if you can handle 286 pounds, only an idiot would say no. You start running 286 cars on 70-pound rail, just rather slow. However the maintenance does go up.
- Heavier cars are used more north, south and west because going east CSX and NS are not 286,000 capable to many destinations out there. But it's headed in that direction. You're going to have to be in a position to load 286,000 pounds in the future.
- The upgrade program in the state of Iowa is pretty good. The lack of funding, in my view, is a short time type of thing. First in this country we're doing well and then we're not doing well, it's all cyclical. What I have found on our railroad is if you can get the track upgraded, and you desire to keep your track maintained, we can do so once it's upgraded. But to start off at the bottom of the scale and upgrade, we're just fighting individual hotspots as they crop up and we have enough upgrading in that we can already see this is going to be maintainable but we needed help getting it upgraded.

- There's not enough money in the state of Iowa to bring all these rail lines up to the top standard. The state really has to take a hard look. Maybe it's cheaper to take the plant that's proposing to go on a bad rail line and locate that on a good rail line than improve the rail. What is the infrastructure cost? You find that sometimes if they get the rail going, they don't have the water and sewer. It becomes a question, well let's put them down in the regional centers where the services are available. It's a lot cheaper to have people drive in for jobs than it is to try to locate jobs out in the middle of nowhere. Once you start talking that you also have to put in water and sewer, that prospect suddenly goes someplace else. They weed themselves out by natural selection on just the economics.
- If the railroads are going to succeed, they are going to have to get to 286. I think we all agree with that. So the question in my mind is how are we going to get there? Today the state doesn't have the money to do it. I think the state of Iowa needs to take a step back and say we don't have funding here. The state of Iowa has got a lot of funding and that's very controversial, but I think they have to look at where they're allocating those dollars. We talk about the damage the trucks are doing to highways. I think the state ought to seriously look at where they are spending those dollars, whether it's strengthening roads or bridges, widening highways, adding more lanes, whatever, and take a good look at the alternative of putting some of those dollars in the rail system to take the trucks off the highways. I think the benefits if we can get to the point where we can show the cost benefit of making those investments, I think are going to favor taking some of those dollars and putting them into the rail network in this state. I don't know what the right number is, what the dollars are, maybe it's a percentage of the highway budget, maybe one percent that would do a lot for this state right now. I fully recognize that the road builders and the highways and truckers associations are very powerful lobbyists in Iowa, but I think the Transportation Commissioners have to take a step back and see where's the best place to invest the dollars they've got because they are limited dollars. If it makes more sense to put some money into a rail line to help it get upgraded, then the railroad can fund the maintenance. I think you can get a lot of seed money there and do a lot of good things for the transportation network in the state of Iowa.
- I have never been able to figure out why the Iowa Interstate couldn't load semis on fast trains and haul them from one end of Iowa to the other and save wear and tear on I-80. In the Kansas study you ought to be able to prove you would be lot cheaper.
- One of the reasons is speed. Our facility would love to do intermodals to the west coast. We send a lot of our product to the LA area. The problem is the retail customers want fast turns and rail is slow. By truck you can get to the west coast in three days, it takes 14-21 by the time it goes

through the intermodal stops, etc. We're getting to our peak season and we'll start shipping 100-125 truckloads a day out of the plant of which 25 percent will be intermodal dray to either Kansas City or Chicago. Fifteen years ago there were 11 intermodal loading sites in Iowa and today there are three. So those opportunities are diminishing, but it would take you two days at least to get across the state on rail where you could drive across in a matter of hours. We don't pay the freight, our customers do. We're trying to tell them that we would like to do more of this intermodal but sometimes the issue is to get it to California is they don't want to give us the lead time to get it there, they would like to shrink that time and not get any bigger.

- How many of you have driven I-80 recently? I avoid it like the plague. What's the DOT going to do to improve the truck and passenger congestion on I-80? Well they're going to build three lanes in each direction one of these days. What's that going to cost? You're almost to the point where you tell a trucker to get on a train, we'll have you over there in eight hours, and we'll give you \$100 to do it. It would probably be cheaper than building a four-lane highway.
- You are going to be seeing more trucks on the road than there are today to carry the same volume because of the workday restrictions. It's not going to get any better. One thing that would help is to do more intermodal shipping.
- Whoever owns the railroad needs to have some financial interest in using it themselves and have some ownership.
- Often those situations are not dictated locally, they are dictated at the ends like Omaha and Chicago because it's a shortline railroad bringing the stuff in, the locals are willing to fund it, yet if Chicago and Council Bluffs if the shipping rates aren't economical that center is going to fail. We paid that game and lost.
- We invested in the CONW (now UP), the line that runs from Farnhamville to Albert City. We invested several hundred thousand dollars in that line, paid it off over time, and we have some ownership. Now we have to make sure it works.
- I feel that we all might look at the big picture, when it gets down to the dollars and cents and the accountants figuring something out I don't have a good feeling, the road repair versus the railroads. Everybody talks about the figures and four trucks per carload there are many studies concluding that the steel wheel on rail is pretty efficient. I don't think the railroads have received credit. For example the Iowa Interstate deal, it could be that after expenses they save a billion dollars a year on highway costs. If

we're talking about running cost analysis and where we put our money, there's been the Berlin Wall between rail and highway. In past years within the Iowa Highway Commission, you didn't even want to try to scale that wall. You'd get shot. How can you do a proper preservation analysis on anything in this environment?

- The DOT has approved I-80 across from the west side of Des Moines. The vehicle mix of trucks to cars is about 40 percent trucks. My concern is yes we can widen it but it goes back to the maintenance. The more trucks, the faster it wears out, and the more you have to maintain it. Why can't we interject rail? Firestone is one of the people we talk to constantly and they lose \$800 a shipment because they have to dray the box to Chicago, load it in Chicago. Yet we have an intermodal facility in Newton. We say why should we replicate that, why can't we dray to Newton and load it there? A freight forwarder was actually operating that facility, so Firestone was not even told or given the choice of going to Newton. We have to build a system that allows us choices to serve as many people as we can in various representative governments in central Iowa and work with them on transportation issues. We're keenly interested in Iowa Interstate not so much for the passenger side but for the freight side for bigger choices because it's costing businesses money. In our metro area we can't attract people because they can't get the product on the train fast enough. I've been in UP's yards in Chicago and watched them double-load trains and trucks coming in side-by-side into the gate and we're told it will never happen in Des Moines. One of the huge issues for central Iowa is having access to rail. We have to be competitive. The weight of the cars, the grade of the track, we have to make this a place where you can compete. I am concerned about the investment of rail versus road. It's a balance.
- You can upgrade the railroads all you want. Until management gets better on the railroads, it doesn't mean much. We have cars that run at least two-three weeks behind.
- In fairness to the state legislature, this is a national policy that has been here since 1950 to make it very convenient for highway traffic. It's got to be a national initiative to change the balance between trucks and rail use.
- I would add that the awareness of our state legislature is zero to what rail does. I've been to the "Rail Day on the Hill" and spoke to three different representatives and all they wanted to know was what railroad runs through this crossing because of an accident there. They didn't know what railroad ran through their district.

Dave – There's something in the Iowa Constitution that says that road use tax fund money can only be spent for roads.

- If you go back to the days of the Eisenhower Road System that started the Interstate System, there was a small debate but just a little blurb about highways running through our rail system. That's when the debate was lost.
- There's a book entitled "Getting There." It talks about how the highway system is formed and our public policy and gives a pretty good idea of how we got where we are. It's the University of Chicago Press, about 1998.
- You can upgrade rail, but if it isn't efficient, it won't be used. From transportation standpoint if a truck can get it there when it is supposed to be there versus the risk of loading rail, that's something you are not willing to accept.
- It's cyclical with the railroads in terms of service. At this time rail service has got much better since we have had no mergers, computer interfaces except the KCS lately. Railroads every day know that and try to address it where their inefficiencies come in. In Chicago, where all the railroads there are trying to find faster ways to interchange with each other, has been a success. Railroads have taken the initiative to try to do that. It is the need of the person on the end at the retailer or doing the ordering that everything has to be JIT, including rail car shipments. Maybe you have a two or three tier type of system at each location where you say we have product that can come in by rail knowing it's going to be a three-week shipment time. Anything we absolutely have to have right now maybe it is a truckload. I think railroads are very cognizant of that and I have seen railroads really step up to the plate on this really address the issue of service.
- The grain industry sees it differently. The big problem I see with service on railroads is there's no competition. I'm on the Union Pacific line. I'm not going to get anything but Union Pacific cars up there and they have no incentive to put more engines and more crews on to get those cars in and out when they should be. I can call up a truck and he says I'll be there tomorrow. I'll call another guy and he says he'll be there in an hour. Which one are you going to take? You don't have that choice with a railroad; you take what you get. They don't have the incentive to provide service anywhere close to what a truck can do. We have no alternative if we have 265,000 bushels of corn going to Mexico. There aren't enough trucks in America to get them there so we put up with a two or three week delay from the railroad to get it there.
- The shipper is in a very good position when he has two railroads he can get to from his location....competition.

- I just got a notice that there was a freight increase to go to Mexico. They price the freight so you have to look for another alternative, another market. So railroads dictate what markets we go to by their freight rates.
- It's getting tougher and tougher for us in the metro Des Moines area to get along with the citizens putting up with the hassle of a crossing arm coming down and bouncing over the tracks. People don't have any concept of the difference in models.....60-70 miles with a truckload of grain versus 2,000 miles on a rail carload of grain and what that does for your business. There's no way you can get them to comprehend that.
- I'm trying to convince the elected officials that we have done a very poor job of supporting freight rates. We have those dollars that we give out for projects. We've not looked at truck routes, we've not looked any of these issues that make goods movement any easier. The other point I hear is you can't ship to Mexico. I was in a meeting in Mexico in September. Those two national rail lines are building double tracks out of Mazatlan to the Texas border and they are going to bypass the Long Beach port. They are going to be closer to the east coast to bring those Asian goods in and the Mexicans are gearing up to move goods into the eastern United States through Mazatlan, Mexico instead of Seattle and Long Beach.
- You have to load something back and you're going to load off the PNW back to Asia. You're not going to load out of Mexico to go to Asia.
- The Union Pacific spent many million dollars in Los Angeles and basically dug a canal and put their railroad down in the ground and built all the crossings over the top of it so there's no crossing conflict (Alamda Corridor). Is Des Moines willing to do that?
- If you look at all those red lines coming off of Des Moines, almost all of them are in Category I abandonment. The way the railroads are going it's all UP. There will be nothing there as far as those small railroads. That's just a sign of the times.
- I heard that the UP guy say there's no place else around Des Moines to develop an industrial site.
- I think the local governments and part of the Greater Des Moines Partnership would disagree with that. We even had federal funding look at the rail, road, and air together. I don't think in Des Moines, Iowa or anywhere in Iowa would you need to have all of those in one place, but we have plenty of places. The new interchange they're going to open in Ankeny...the bridges are going in right now on I-35. That interchange has been designed for truck movements. You have the UP rail line there. We

do have locations and interest. The Iowa Interstate rail line west is in such poor condition, I think the Midwest Regional Rail Initiative of \$100M. to improve that railroad across Iowa is a better value than 13 miles of interstate costing \$430M. in Des Moines. It goes back to the balance about what you want your transportation system to be. For those of you who operate in the Des Moines area and central Iowa, I am convinced we have to look at the freight issue and the goods movement issue, as much as to get people to work in downtown Des Moines home. We have to help Iowa be viable. We have to make life better for people trying to get their goods out of here and you have to make investments in the transportation system and part of that system is rail. I think we have some real opportunities, and if we don't take advantage of them, we'll regret it. I'm not saying the DOT should own all of that, I'm saying we as governments need to educate people about the importance of having a viable rail system as part of the transportation system, or we're going to lose it.

- We, as industry, don't do anything until somebody has us by the throat then we start screaming. We're guilty.
- I want to bring up closing rail crossings in downtown Des Moines. It's a safety issue, it's a speed issue. Do we need all the rail crossings in Des Moines? It's a huge issue and if they want commuter rail, they're going to pay \$7M. just to upgrade the rail lines including all the signal blocking, just to improve speed.
- There probably a lot of sharing that could be done east, west, north, and south in Des Moines among carriers.

Dave – I want to talk about the stratification map. Iowa DOT wants to think more strategically about the system and this is a tool they put together.

Craig – We developed a four-level system and grouped rail lines together based on function. The national system, in blue, is based on those lines that have been classified by the Federal Railroad Administration working with the Department of Defense as important for national defense purposes. This level also includes those lines that carry a lot of traffic, the high-density main lines in the state. The multi-state level has traffic in the 5-20 gross-tons range. They connect Iowa to some of the major gateways that surround Iowa, such as Chicago, the Kansas City, Minneapolis, St. Louis. In splitting up the remaining lines, we put some into a regional category and some into a local. Those in the regional category have the possibility of two different outlets that could go in either direction to get their goods out and service to several counties. Those lines in the local system were short and basically only had one direction to get out.

Dave – Does this make sense or are there obvious things you would want to change, maybe moving a line up or down? Is this a useful tool? If the Iowa DOT has limited resources, where should it focus its efforts?

- Do you have these kinds of things on a website, where all the rail lines are in Iowa and what kind of density?

Craig – We have some of our rail system maps on there, but we don't have the stratification map on there. We do have who operates what, and some volumes, a map showing where some of the grain elevators and processors are located. The website is iowarail.com.

Dave – Where do you think Iowa DOT's operation should be if they work toward restoring programs?

- I think a lot of your yellow needs to go to red, because they are local lines.
- I think the ones that carry traffic between states ought to be at least green or blue.
- You need to take a hard look at livestock and ethanol and what it's going to do to these lines. I think that would be a huge factor.
- At a rail advisory committee meeting some time ago, there was a speaker from ISU that said it's a market-driven economy and farmers will get between 5-10 cents a bushel more if we have one of these large competing uses here. The speaker said in some study cases what happened, if that was true and other purchasers like elevators went bankrupt and there was only one corn user in town, the corn price actually went down.
- If the ethanol plant takes grain away from the next local co-op, the 5-10 cent improvement basis that we got the last two years is going to go away again.
- These plants are there to buy corn and beans as cheap as they possibly can. That's their job, to make money.
- That's why they located there. They had three reasons: 1) next to a huge gas line; 2) on a good rail; and 3) the cheapest corn they could find.
- There's a corn plant in northwest Iowa being built within a mile or two of a 100-car UP shuttle. One of them isn't going to survive.
- Have we thought about the subsidization that's going into an ethanol plant that's being built today and the elevator network that's trying to compete against a heavily subsidized industry?
- Without the USDA subsidy, they don't cash flow.

- What happens to an ethanol plant if funding goes away long term?

Dave – What role should state government play in rail passenger service?

- Americans won't give up their cars.
- Amtrak still runs through Iowa.
- It's really kind of a novelty. A friend of mine took a trip out to Winter Park and said the trip was uncomfortable and long and he thought it was horrible.
- That is the one train a day that comes from Chicago to Osceola. If you miss your connection, you have to wait until the next day.
- And you have to drive to catch it. It doesn't go through any population.
- There's a reason why they run one train a day.....demand.
- During the Christmas holiday, it was packed.
- The Interstate Highway System was the demise of the passenger train.
- You can't compete price-wise with air travel. It's about the same for a coach seat on Amtrak as it is to fly. There are a lot of problems with it.
- You can go to from Omaha to Denver in an hour and a half on a plane or two days on a train.
- We're in a society that wants to do things fast. There are not enough people in Iowa. If it's not fast, nobody's going to use it. There's cost in making it a fast train, you have to do all the grade separation, crossings. The cost is enormous.
- I think the Class 1s should get out of it. They put too many freight trains on hold and let Amtrak go by.
- The BN runs 42 coal trains a day through Lincoln and they have to put some of that stuff on hold and let Amtrak go by. It takes about 45 minutes to get a 100-car coal train up to speed. You're staging everything and pretty soon you have a bottleneck out there.
- I would be supportive of it but you have to do like France and Germany have done and that is have dedicate lines only for the rail passenger train, they're high-speed and it's a national priority that they be used. Without a national priority, Iowa can't do anything. You can upgrade your line, it

doesn't make any difference. Amtrak doesn't care. Foreign passenger lines are frequent, reliable, on time. They are extremely expensive and they're subsidized.

- Same way in Japan, it's the national policy because of the population plus the cost of fuel.

Dave – What should the state do?

- Nothing.
- I'm still more concerned about the freight side of rail than the passenger service side.

Dave – Put on your farmer hat. Are there actions the Iowa DOT could take to make rail transportation more valuable to farmers?

- Realistically we know there are some rails that aren't going to be profitable, but our industry is pretty tied with the rail industry. Our grain bids are directly affected by the price of the cost to ship it, whether it's going through an ethanol plant or to the processor as beans....we need to maintain it. It's pretty important that we keep as much as we can. I spent a couple of weeks in Brazil. One advantage in that country is they have a natural green house growing crops year round. One advantage we have yet is our infrastructure. We need to maintain and upgrade, starting with rail and also the river system.
- A couple of farmers in our area said what they're probably going to need in the future is the ability to seal crop in the field in a container and ship it overseas with the ISO 9,000 rules. If that happens I can see a real need in central Iowa, for a high-class intermodal center that we do not have. We have all floundered in trying to provide it. We cannot do it. It takes a state initiative, central Iowa makes a lot of sense to me. Frigidaire in Webster City as an example, ships their refrigerators clear out to Chicago before they can access intermodal service. Farming is going to rely more on intermodal as time goes along because you're getting into the high-priced/low-volume crops that have to be protected.
- I would disagree with you on agriculture products ever going intermodal. The volume is just too great and the cost is too great to pack those in a container. Another thing that is happening is domestic usage here in the entire United States is growing quite a bit and there will be a point someday that we're going to use it all up here ourselves and our percent of export is going to be quite a bit less. Intermodal may be necessary on the industrial side, but in agriculture it probably won't ever happen.

- We look extensively at the pharmaceutical plant that is now going out in Colorado. One hundred sixty acre crop field, what they want out of the genetic corn plant is about one truck load of material, all the rest of it is used locally, makes ethanol, cattle feed, pig feed, etc. That's the future of agriculture for Iowa, not the commodity crop.
- You're talking 160 acres out of 70 million. That's a pretty small specialty type product.
- We export some containers through the state of Washington and through Norfolk, Virginia. We cannot load those containers anywhere in Iowa. We load them in hopper cars and take them to the port and containerize them there because there's not even a close comparison on costs. Intermodal just doesn't work in Iowa.

Dave – Anything else on farmers, what we can do to help the basic agriculture?

- Regarding the railroad industry, it would help the farmers and the shippers too if we could, as an industry, improve the times it took to do things. If you're going to ship something, it's nice to know how many days it's going to take to reach its destination, say 90 percent of the time. Then that's something they can count on and plan on. It's not the fact that it should be three days versus six days, but can we have something we can rely on.
- The most important thing you can do for farmers is to make sure they have markets available to them. The farmers are going to pay the full freight rate, whether it's truck, rail or whatever.

Dave – Somebody mentioned how the Legislature perceives railroads, and I think the answer was they don't. How do you think the average citizen sees railroads.

- We're an annoyance to them.
- Most people don't understand what railroads do other than block crossings. They don't know the amount of product that gets moved. They don't know what railroads do to make their life simple. I don't know how you would ever get that point across. Unless you're in the industry and work with the railroads, you just don't know.
- Imagine if we took everything off the railroads for one week and put it on trucks and then take it off again, that would make one dramatic point.
- Inconvenience is one thing Americans don't like, and they would be inconvenienced pretty quickly if that happened.

Dave – Do you think some kind of an education program would just wash over people's heads?

- Operation Lifesaver has been an educational program for years and most of us railroads support with donations, etc. Part of that is putting an officer on a train to find people who drive through red flashing railroad lights and around gates and then they start writing tickets. Statistics have indicated that once you come to a town and do this a couple of times, everything improves for six-eight weeks. Then it goes back as it was before.
- We need to talk about the economic impact that rail provides the state of Iowa and what it means from a monetary standpoint. But, the first time they have to wait at one of our facilities, it doesn't matter what the economic impact is, they know their life has been impacted. I don't think we can overcome that.
- Something you can do for farmers is take a look at these yellow and red lines and do some rationalization of what that's going to look like in five years because I think a lot of it is going to be gone. I think some of these north-south lines aren't going to be as we see them today.
- When I first looked at this and saw that my elevator is on a red line, I thought, oh no, but these red lines aren't really any less important than the yellow they just happen to be one directional.
- If you have a local line and there's any chance of locating an industry on this line, the Iowa Department of Economic Development and the Iowa DOT should enter into the discussions. The connotation is that red means they're gone. Red means abandoned. Change the color scheme.
- You can't just go by this map. You need a map that shows your volumes shipped on it to compare it.
- Does the DOT have a grade separation policy? Do they have a strategy for high accident locations? Are there corridors you've looked at for grade separation to alleviate some crossing problems?

Peggy – The federal money we get for improving signals can be used for grade separations, but since we only get about \$4M. we don't use it for separations. The national studies that have come out that I've seen on when grade separations are warranted would suggest that the highway traffic volumes would have to be a lot higher than most of our crossings, up around 100,000 per day.

- I think a better more cost effective way is to close crossings. I think we need to have an active program in the state to close crossings. This would

improve safety and cut down on maintenance expense, signal systems and the highway crossings themselves. Use those dollars somewhere else.

- In Storm Lake they had an unfortunate accident where there was a death. They had around 12 crossings in town, so they looked at the cost to put lights up at every crossing, and decided to close two or three of them.
- It's a relatively rare thing that a city or group would support that.
- You deal with citizen complaints about closing their crossing. The biggest opposition to closing crossings is fire and rescue people.
- If you have a resource that's low density and you want to keep it and make it stronger, are we doing any economic development concentration on a low-density line versus a medium-density line?
- There seems to be a ground swell to have some tweaking of the Staggers Act with maybe some new rules. Two or three years ago somebody proposed it and there was one signature on it. Now S919 had 7-10 senators doing it. Has the state done any research or determined if there are any parts of the statute that needs to be changed?

Peggy – No we have not because we don't get into the pricing side. We try to stay on the infrastructure side of grade crossings or upgrading track. We have not really studied that. The shippers are probably more capable of doing that.

- I think railroads are probably somewhat skittish about at what point do you tinker with funding. Do you get back into a more regulated environment if you're getting funding from the state or federal level, and then are you going to be regulated by them? I think there's broad spectrum of railroads that you have a railroad on one end that might consider some help funding with grade crossings to a railroad, on the other end that says no to funding because we don't want to be tinkered with as far as the Staggers Act is concerned. I think they are all over the board on that.
- Where do you start and where do you stop? There isn't enough funding to upgrade all those lines and do everything we want to do. Some people will drive prices down or open up lines to more competition and what that is going to do to railroad revenues is decrease them.
- I'm not saying we should drive pricing down. Railroads have to make money, but they have to price fairly. They used to have the old 6 section of the Interstate Commerce Act where you can't price Mason City cheaper than Des Moines if you're going through Des Moines. That's no longer a

law. You can do inverse pricing. Railroads are pricing where they want the product to go, not necessarily where we want it to go.

Dave – Let's say the state of Iowa wants to get back into things like preservation or upgrade. Where should the money come from - the state share? I think everybody here pretty much agreed they want to see shipper participation; they want to see rail participation. Where does the state money come from?

- Years ago the Iowa Rail Finance Authority was funded by the Legislature out of the Road Use Tax Fund and the concept was that IRFA would administer this to do all the types of things you're talking about. It was pretty broad. They had a set of formulas where they could figure out with limited amount of funds, but it was all based on low interest loans that were paid back. The concept was if the Legislature funds this for "X" number of years, pretty soon this money would start coming back into the pot and the pot will actually start to grow. It's only going to grow 2-4 percent a year. Great concept, worked in a number of places until the state got short of funds. All you have to do is to get something like that funded and going and you probably would never have to put any more public money into it after a period of years.
- This map would not look near what it does today without state funding.
- How long have you not had the program?

Peggy – Fiscal year 2002 was the last year we have the General Fund appropriation. There hasn't been the fund since 1991, so any loan repayments we've gotten back since 1991 have gone to the General Fund rather than stay in the rail pot.

- Is there anything the shipping industry can do to help?
- There is a national group called Save Our Service, shippers that are basically supporting railroad funding type issues. They are speaking up and writing letters to the editor talking about the importance of rail. It's kind of a grass roots thing, just starting to get off the ground. I've seen a couple of pieces come out in some periodicals.
- Is there anything we can do with some state legislature people here maybe to get some money back in that thing?

Peggy – For the last two years we have been trying to do a bit of an educational program with brochures showing the importance of the rail system to the state and the state's economy. It's not going to happen from the department, it's going to happen from those people who use or provide the system to say this is an important use of state funds. We all know how tight things are now and how limited budgets are now and those people have a very hard job to do. They have to set priorities.

- Can you orchestrate a meeting? We writing letters mean nothing.
- The money available to us for upgrades, or whatever, how's that administered? How do you know if we give a railroad \$1M. they don't just put it in their pocket and say thanks. Who watches over that?

Peggy – When we had our three-party contacts in the past, we review the cost estimate, we write a contract, they do the work, we reimburse on a progressive basis for work actually completed, and then our auditors audit all the bills that are sent in.

- You have to get the funding issue locked down so that “X” number of years later they don't take away the fund again.
- You asked what could the shippers do and you said it was up to them to talk to the people. Is it the forum better to bring them to a meeting like this to write people and talk with them? You could orchestrate this better than we could. Writing letters is all very interesting and having pamphlets, but face-to-face communication is better.

Peggy – I'm not sure our office could orchestrate that. This year we are not requesting any rail funding in our budget, which goes through the Governor's office. We all report to the Governor and that is not one of his priorities, so I don't think we would be able to orchestrate such a meeting.

- You couldn't have any kind of request for funds without some kind of long-range plan in place.

Peggy - That's what this whole thing is about is to put together our next version of a long-range plan for rail.

- In that plan are you looking for sources of funding? If you're going to have a long-range plan, you're going to have to address funding at some point.
- Part of our dilemma is if the department and the Governor decide this isn't a funding priority and we try to go to the legislators and talk to them about funding, they will say the department isn't even asking for any money. So end of the conversation.
- The last couple of years all the railroads in the state of Iowa have had a legislative get-together. It's set up from 7-9 a.m. at the Capitol. We've had a real good attendance and the railroads get a chance to talk to the various representatives and answer questions. One of the things we try to do is hit these issues like funding, programs, and where are we going. I

take the time to go to this because it is a very important. I think that is helpful.

- If you get funding, what are you going to do with it?
- Fund some of the programs that are already on the books.
- What's on the books?

Peggy – We have the original rail assistance program that was formed in 1974 where we have had both state and federal money. We have a Rail Revolving Loan Fund that is probably the best fund right now because it doesn't drop dead at the end of each fiscal year. It's a loan program so loan repayments come back in and stay in the fund. We have a small intermodal program that's a loan program. The Rail Economic Development Fund has been administered as part of rail assistance. That's where we provide a small amount of funding for companies that are creating jobs to build rail spurs to get rail access. That's where we used the state money. We're not taking any of those applications this year. That's part of this whole planning purpose is to have something in place so if, at some point in the future we get rail funding, we have some kind of tool to decide what's most important.

- Do you expect the bulk of that money to be used for some type of new construction or repair what's there?

Peggy – I would say the broadest support that we have is probably for rail economic development. Traditionally we put \$100,000 into those types of projects and that has pretty broad support across the state with all the cities and counties and economic development groups.

- Do you get that \$100,000 back?

Peggy – No, it's used up in grants.

- Do you have a map that shows what lines are 286,000 capacity and which aren't? The railroads have them but we almost have to piece meal them together.

Craig – I don't have a current one, but I don't think it would be a big task to put one together.

- There are a lot of railroads around the country that are not 136 pound but are 286,000 capable. There are a lot of 90 and 112-pound rails.

Craig – At the time we were looking at either 100 or 112 as a minimum for heavier cars, but if you had less than that then you're probably going to need to do some rail upgrade.

That was kind of a cutoff point we were looking at when we studied the input of heavier cars on the rail system.

- Would you run 286 on 90-pound welded rail if it were tied well?
- Slow speeds, 10 mph maybe.
- One of the other capital components we shouldn't forget about with all the talk on 286, is we also have the equipment issue. There are a lot of rail carriers in this country that are not a 286 capable. If we're going to upgrade the lines we also have to upgrade the rail car fleet to get the bigger cars that you can fully load. That's evolving over a period of time but rail cars are well in excess of \$50,000 each so when you're upgrading your fleet, it's a lot of money. That's another cost component we look at when we look at upgrading the lines.
- That's not really that big a problem. We are in a program where we build 286s and lease them back to the railroads and they are pretty happy to do that. It upgraded their fleet and they didn't have much investment to do it.
- In certain areas you can do that. We have about 8,400 cars in a fleet of all car types so it's not just grain cars.
- There are a lot of 750s still running around that are 268 capacity that aren't going to be cut up. They're 15 years old and they're going to run for 15 years.
- Which is good because there's a need for that. No all receivers can take 286. We just can't forget that other piece of the pie.

Dave – Have we missed anything here today?

The first couple of questions we talked about, like what should the DOT invest in, I think it all goes back to why we have a government in the first place which is to help from the public welfare perspective. It's obvious that the lines that carry the volume that are doing the bulk of the business are probably going to remain viable without a need of state intervention. When you start talking about preservation from an economic perspective that's tough to buy into. The one place I think the DOT does have a role is in the public good aspects of transportation, since the railroad is not going to pay one bit of attention to those public aspects. What benefits does that rail line generate for the city and community along that line? In those types of situations so long as the welfare generated from maintaining that line outweigh what the DOT has to spend, then that's a pretty easy decision to make. You don't fund that type of program. If we can't meet those criteria, then it ought to go by the wayside.

Peggy – Railroads pay property tax and we've calculated that there's probably over \$17M. a year paid by railroads to local cities and counties.

Stu – Thank you again and the input that we got from you today will be compiled with the other roundtables we have had and we'll be visiting with our transportation commissioners in the coming months about this and developing a more specific items in our draft rail plan and draft state plan and there will be another opportunity for input into those documents.